NRC·CNRC

NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED – Quarterly Financial Report for the quarter ended December 31, 2014 (unaudited)

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates, Supplementary Estimates (A) and Supplementary Estimates (B). The QFR should be read in conjunction with the Main Estimates, Supplementary Estimates (A) and Supplementary Estimates (B) as well as Budget 2012, Budget 2013 and Budget 2014. They have been prepared by management as required by section 65.1 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* and in the form and manner prescribed by the Treasury Board of Canada Secretariat. Although these statements have not been subject to an external audit or review, the National Research Council Canada (NRC) attests that they are an accurate and true reflection of the financial position for the period ending December 31, 2014.

1.1 NRC Mandate

The NRC exists under the *National Research Council Act (R.S.C., 1985, c. N-15)* and is a Departmental corporation named in Schedule II of the *Financial Administration Act (R.S.C., 1985, c. F-11)*. The mission of the NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the NRC deems necessary.

Further details on the NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates, Supplementary Estimates (A) and Supplementary Estimates (B) for 2014-15. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

The authority of Parliament is required before moneys can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government of Canada to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

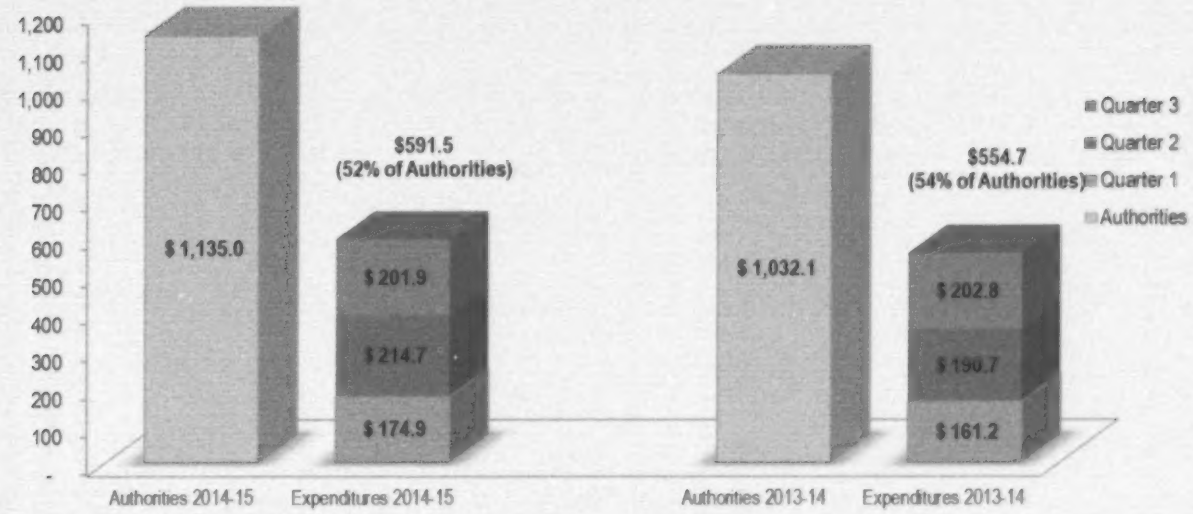
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on December 31, 2014 compared with the previous fiscal year. This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object found on the last 2 pages of this report.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of December 31, 2014 and those as of December 31, 2013.

Comparison of Budgetary Authorities and Expenditures as of December 31, 2014 and December 31, 2013
(in millions of dollars)



As shown in the graph above, the NRC's expenditures totalled $201.9M during the third quarter of 2014–15 which represents a decrease of $0.9M over the third quarter of 2013-14. Lower expenditures are mainly attributable to the combined increase of $23.2M in net operating and statutory revenue expenditures, offset by a decrease of $16.0M in Grants and Contributions and $8.9M in capital expenditures. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending December 31, 2014, the authorities provided to the NRC include the Main Estimates, Supplementary Estimates (A), Supplementary Estimates (B), the Statutory revenue authorities carried forward from 2013-14 as well as all authorities received from Treasury Board of Canada Secretariat Central Votes. The following table summarizes the changes to NRC authorities since September 30th, 2014:

For the year ending March 31, 2015 - As of December 31, 2014
Significant Changes to Authorities *(unaudited)*
(in millions of dollars)

	Vote 1 Operating	Vote 5 Capital	Vote 10 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2015 - As of September 30, 2014						**1,095.2**
Add (deduct):						
Genomics Research & Development Initiative (GRDI)	8.0				0.4	8.4
Canada Accelerator and Incubator Program (CAIP)			6.4			6.4
Transfer from National Defence for the Canadian Safety and Security Program		0.9				0.9
Collective bargaining	24.1					24.1
Total increase in authorities in comparison to prior quarter	**32.1**	**0.9**	**6.4**	**-**	**0.4**	**39.8**
Authorities – Total available for use for the year ending March 31, 2015 - As of December 31, 2014						**1,135.0**

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object both located at the end of this report.

2.3.1 Variances in Year-to-date Expenditures

As of December 31, 2014, year-to-date expenditures were $591.5M, representing an increase of $36.8M (7%) in comparison to the 2013-14 expenditures of the same period. The increase is mostly attributable to the following items:

- Combined net operating expenditures and statutory revenue expenditure increased by $80.8M compared with the same period of the previous fiscal year. This change is mainly attributable to an increase in personnel of $35.2M as well as an increase of $35.9M in other subsidies and payments. The increase in personnel cost is largely due to the ratification of several collective agreements in 2014-15, which has resulted in one-time prior-year retroactive payments of $16.7M, and one-time severance payments of$22.7M. The increase in other subsidies is largely due to the $11.7M transition payment for implementing salary payments in arrears by the Government of Canada and a change in accounting practice for the recognition of work completed for Other Federal Government Departments;
- Transfer payments consisting of Grants & Contributions (G&C) expenditures decreased by $34.6M compared with the same period in the previous year. Of this amount, $23.6M is

attributable to decreased contributions to firms, $18.1M in the Digital Technology Adoption Pilot Program due to the program's expiration, offset by an increase of $4.1M in the Youth Employment Strategy due to an increase in funding.

- Capital expenditures decreased by $12.1M compared with the same period in the previous year. This change is primarily due to capital expenditures being charged to statutory revenues rather than Vote 5 – Capital expenditures.

3. Risks and Uncertainties

In November 2014, the NRC Senior Executive Committee confirmed the top corporate risks for the NRC moving ahead into the 2015-16 planning period. Many risks were carried over from 2014-15 in the updated assessment, with the top 3 out of 10 corporate risks identified below. Two of the top 3 risks reinforce the continued focus on security post-cyber intrusion:

1) Effective Implementation of Secure NRC concerning the NRC's ability to shift the organizational culture and employee behaviors to implement the necessary governance, controls and practices for a secure NRC;

2) Global Disruption related to the NRC's ability to respond in a timely manner to global events that could lead to significant instability and economic downturn with associated impacts;

3) Delivery of Results for Clients and Canada, focused on effectively delivering expected results and demonstrating impact, including regaining momentum after the cyber-intrusion.

Some of the financial uncertainties arising from the cyber intrusion relate to the possibility of changes in the NRC's financial situation resulting from NRC's ability to deliver on certain R&D program commitments where there are associated requirements related to contracting (e.g., hiring, procurement), ability to meet the projected revenue targets, and reassignment of resources to implement the Business Continuity Plan and Secure NRC Project. As systems come back online, NRC will be working to eliminate the backlog resulting from the cyber intrusion to regain business momentum.

Budget 2014 announced a freeze on 2014-15 and 2015-16 operating budgets for all government departments and agencies which will restrict costs across the government. NRC is managing its future spending through detailed internal planning and monitoring.

A number of key actions to respond to the corporate risks identified have been proposed for approval by NRC Senior Executive Committee in January 2015 as part of the updated Corporate Risk Profile, and will be included in the NRC's Operational Plan for implementation.

4. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 implemented in order to refocus the Government of Canada and its programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The NRC realized savings of $1.3M identified for its first year of implementation in 2012-13. The NRC also fully achieved its ongoing Budget 2012 savings of $15.2M in fiscal year 2013-14 through administrative efficiencies within its internal operations by consolidating and streamlining activities as well as through program reductions. There are no variances in the NRC's authorities between fiscal year 2013-14 and 2014-15 due to full reductions to the NRC's permanent reference levels in the second year of implementation.

There are no significant financial risks or uncertainties related to the implementation of the NRC's Budget 2012 savings measures. The NRC developed a roll-out plan for each of its savings measures and progress against the plan is monitored by senior management on a quarterly basis.

Budget 2012 also included $67M in funding for fiscal year 2012-13 to support the NRC in refocusing on business-led, industry relevant research as well as $110M in continued funding to double financial support and expand services provided by NRC-IRAP to innovative small and medium-sized businesses that create high-value jobs. As part of this initiative, the NRC launched a concierge service that provides information and assistance to small and medium-sized businesses by helping them make effective use of federal innovation programs.

5. Significant changes in relation to operations, personnel and programs

Operations

Following the cyber intrusion in July 2014, the NRC has resumed operations in an interim secure operating environment, enabling the organization to continue to do business whilst protecting the confidentiality and proprietary information of clients and employees. As the NRC's new secure IT infrastructure is being built, secure workarounds have been put in place to ensure minimal disruptions to employees, clients and stakeholders.

Programs

In the third quarter of 2014-15, the NRC announced a research program that will translate quantum photonics research into technology applications for Canada's future economy. Working with clients and partners, the Quantum Photonic Sensing and Security research program will deliver early stage disruptive technology development, including prototype quantum systems.

Approved by:

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President
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Date: February 27, 2015

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Vice-President, Corporate Management
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National Research Council Canada
Ottawa
Date: February 27, 2015

National Research Council Canada

Quarterly Financial Report

For the quarter ended December 31, 2014

Statement of Authorities (unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended December 31, 2014	Year to date used at quarter-end
Vote 1 - Net Operating expenditures	423,189	103,673	333,705
Vote 5 - Capital expenditures	32,148	3,737	10,542
Vote 10 - Grants & contributions	281,264	56,564	145,361
Statutory revenue **	354,010	27,928	65,290
Statutory EBP	44,361	10,975	32,625
Total Budgetary authorities	1,134,972	201,877	991,523

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014 ***	Used during the quarter ended December 31, 2013****	Year to date used at quarter-end ****
Vote 60 - Net Operating expenditures	377,684	107,671	299,659
Vote 65 - Capital expenditures	31,299	12,588	22,605
Vote 70 - Grants & contributions	291,482	72,595	175,668
Statutory revenue **	284,539	-	22,515
Statutory EBP	47,106	10,860	30,179
Total Budgetary authorities	1,032,110	202,714	554,654

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act (R.S.C., 1985, c. N-15).*

**** Includes only Authorities available for use and granted by Parliament at quarter-end. Total available for use does not reflect measures announced in Budget 2013.*

***** Totals used during the quarter and used at quarter-end have been increased by $3,699 thousand and $5,917 thousand respectively. All authorities with the exception of Statutory EBP have been restated to reflect current year presentation basis.*

National Research Council Canada

For the quarter ended December 31, 2014

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended December 31, 2014	Year-to-date used at quarter-end
Expenditures:			
Personnel	451,897	101,658	335,598
Transportation & communications	25,100	3,734	8,629
Information	3,568	425	669
Professional & special services	105,172	8,887	23,496
Rentals	6,445	1,334	4,705
Repair & maintenance	37,132	4,277	8,795
Utilities, materials & supplies	110,439	11,938	31,453
Acquisition of land, buildings & works	16,574	3,255	7,839
Acquisition of machinery & equipment	62,168	8,541	21,361
Transfer payments	291,299	59,594	145,899
Other subsidies & payments	31,215	291	22,131
Total net budgetary expenditures	**1,135,673**	**204,677**	**614,575**

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended December 31, 2013 **	Year-to-date used at quarter-end **
Expenditures:			
Personnel	454,723	95,856	335,436
Transportation & communications	25,526	3,551	8,732
Information	3,058	245	857
Professional & special services	62,791	7,731	19,045
Rentals	5,895	1,167	3,192
Repair & maintenance	33,368	4,161	11,125
Utilities, materials & supplies	147,573	6,276	24,855
Acquisition of land, buildings & works	-	5,855	9,977
Acquisition of machinery & equipment	16,649	12,193	24,859
Transfer payments	253,917	72,945	176,606
Other subsidies & payments	16,397	(5,957)	(15,763)
Total net budgetary expenditures	**1,632,110**	**203,714**	**604,894**

* *Planned expenditures do not reflect measures announced in Budget 2013.*

** *Totals used during the quarter and used at quarter-end have been increased by $3,000 thousand and $5,917 thousand respectively.*

All expenditures by standard object have been restated to reflect current year presentation basis.